

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company

Petition for approval of delivery services tariffs  
and tariff revisions and of residential delivery  
services implementation plan and for approval  
of certain other amendments and additions  
to its rates, terms, and conditions.

OFFICIAL FILE

01-0423

COC DOCKET NO.

COC CR

Exhibit No.

1.0

Witness

Date

11/6/01

Reporter

SS

Corrected  
DIRECT TESTIMONY  
OF  
STEVEN WALTER  
ON BEHALF OF  
THE CITY OF CHICAGO

COC EXHIBIT 1.0

AUGUST 23, 2001

Corrected November 5, 2001

1 Q. Please state your name and business address.

2  
3 A. My name is Steven Walter. Chicago Department of Environment, 30 North  
4 LaSalle, Suite 2500, Chicago, Illinois, 60602.

5  
6 Q. What are your title and duties?

7  
8 A. I am the Deputy Commissioner for Energy Management with the City of Chicago  
9 ("City") Department of Environment. My duties include oversight of the  
10 Commonwealth Edison Franchise and recent Settlement Agreement, assuring  
11 that Commonwealth Edison ("ComEd") provides reliable service to all residents  
12 within the City. I am also responsible for providing energy advice to the City, the  
13 Chicago Transit Authority, the Chicago Park District, the City Colleges of  
14 Chicago, the Public Buildings Commission, and the Chicago Public School  
15 system. In this capacity, I was a part of the team that negotiated an 8-year deal  
16 with Enron Energy Services for roughly 250 MW of power, one of the largest  
17 power purchases in Illinois in the new restructured era.

18  
19 Q. What is your educational and professional background?

20  
21 A. I hold bachelor degrees in Economics and International Relations, as well as an  
22 MBA in Finance and a Masters in History. My resume is attached as Attachment  
23 One.

24  
25 Q. What is the purpose of your testimony?

26  
27 A. I am testifying on behalf of the City and its residents about the risks faced by  
28 ComEd, as they may affect its cost of equity and cost of capital.

- 1 • I will propose modifications to the return on equity analysis performed by  
2 ComEd witness Daniel E. Thone, which results in a lower required return  
3 on equity.  
4
- 5 • I will discuss ComEd's risk structure, and more importantly, how Wall  
6 Street perceives ComEd riskiness, reviewing arguments made by ComEd  
7 witness Sam Peltzman.  
8
- 9 • I will recommend modifications to the capital structure ComEd has  
10 proposed, increasing the amount of debt and decreasing the amount of  
11 equity.  
12
- 13 • Finally, I recommend a cost of capital that takes all of these modifications  
14 and arguments into account.  
15  
16

17 **Modifications to Return on Equity**  
18

19 Q. What return on equity does ComEd witness Thone recommend?  
20

21 A. Mr. Thone recommends a return on equity of 13.25%.  
22

23 Q. Do you agree with this recommendation?  
24

25 A. No. I recommend several modifications to the analysis Mr. Thone performed. I  
26 then use his models to arrive at a recommended return on equity of 11.93%.  
27

28 Q. What is the first modification you make to Mr. Thone's analysis?

A. The first modification is to the sample of companies Mr. Thone includes in his analysis. Mr. Thone includes eight natural gas utilities and four electric utilities in his sample that I do not believe are comparable. The natural gas utilities are removed because they are in a different industry, facing market forces and regulatory forces that can be quite different from those facing the electric utility industry. The four electric utilities removed from the sample all have S&P ratings lower than ComEd; thus they have inherently greater risk. These firms I have identified are not comparable companies and should be removed.

Q. What is the second modification you make to Mr. Thone's analysis?

A. Mr. Thone uses the Miller Model to "releverage" the discounted cash flow ("DCF") analysis. It is my understanding that the Commission has allowed the use of relevered DCF analysis for certain limited purposes in proceedings, but has not approved it for determining the cost of equity. I use the unadjusted DCF numbers Mr. Thone calculated.

Q. What is the third modification to Mr. Thone's analysis you suggest?

A. Mr. Thone arrives at his overall return on equity number by taking the average of three different figures: the discounted cash flow number, the capital asset pricing model number, and the Value Line return on equity projections. I exclude the Value Line projections in deriving my final figure. Reliance on Value Line might be useful in a situation where no investment analysts follow a company and there is no other market forecast of earnings growth. However, it is my understanding that the Commission does not allow the use of single-source earnings projections in cases where many investment analysts provide such

projections. The cost of equity process we are going through here is supposed to capture the assessment of market attitudes and be influenced by many available market participants. The Commission has rightly concluded in the past that relying on a single source for determining return on equity is not appropriate where there are multiple opinions readily available.

Q. With these three modifications, what return on equity are you recommending?

A. Using the same models and calculations made by Mr. Thone, but with the above modifications, I arrive at a cost of equity of 11.93%. The analysis accompanies this testimony as Attachment Two.

Q. Are there other modifications that could be made to Mr. Thone's analysis?

A. There are several more modifications that I saw that could be made, such as a different risk-free interest rate in the CAPM analysis and not using the leverage advantages in the CAPM analysis as Mr. Thone did. But I am not recommending these changes at this time. Also, other parties might have a different sample group of utilities to use to arrive at cost of equity calculations. All of these modifications might be appropriate, and might be made by other parties.

### **Risk Structure Facing ComEd**

Q. Could you summarize ComEd's position concerning the amount of risk it faces in the newly restructured electric utility environment?

A. ComEd has brought in Professor Sam Peltzman of the University of Chicago to speak to the risks that are faced by ComEd in the restructured market. He

1 states that there are "general and specific forces that will add risk to the  
2 distribution business." (ComEd Ex. 9.0 at 1) The general force cited by  
3 Professor Peltzman is the so-called "Peltzman effect," named for the witness  
4 after he wrote the initial papers on the theory in 1976. This theory posits that  
5 "more regulation of prices and entry leads to reduced risk for the regulated firm.  
6 Conversely, less regulation leads to increased risk." (ComEd Ex. 9.0 at 1)  
7

8 Professor Peltzman also cites two interlocking specific forces that increase the  
9 risk allegedly faced by ComEd. The first is that ComEd continues to be the  
10 provider of last resort, needing to meet the energy needs of all energy users in  
11 their service territory. The second is that ComEd no longer has a fuel  
12 adjustment clause to allow for automatic recovery of generation costs to  
13 customers who come back to ComEd's system with little or no notice.  
14

15 Q. What is your response to this argument?  
16

17 A. I would make three general points. First, the academic studies that analysed the  
18 so-called "Peltzman effect" are not monolithic: several academic studies show  
19 that the "Peltzman effect" does not exist in all circumstances. Second, what we  
20 are seeking to determine here is how risky investors perceive the stock to be,  
21 not academics; that is the rationale of setting the cost of equity in a rate case.  
22 Third, ComEd's testimony in this case about the increased risks facing the  
23 company contradicts all the testimony the company filed in the recent Commerce  
24 Commission docket concerning the spin off of ComEd's nuclear generating  
25 stations (ICC. Dockets No. 00-0369 and 00-0394, consolidated).  
26

27 Q. What do you mean that not all academic studies support Professor Peltzman's  
28 conjectures?

1 A. Professor Peltzman makes the statement that, "[t]here have been many studies  
2 since 1976 that have attempted to test this conclusion [the Peltzman buffering  
3 effect]. Several of these studies have focused on electric utilities. Broadly  
4 speaking, it does appear that less regulation of electricity increases risk."  
5 (ComEd Ex. 9.0 at 2) Professor Peltzman then cites three academic studies.  
6 The City has requested copies of these studies, but ComEd has provided only  
7 two of the three studies cited at the time of filing this testimony.

8  
9 One of the studies cited by Professor Peltzman, however, clearly shows that  
10 increased risk does not occur in all cases where regulation decreases.  
11 Professor Emeka Nwaeze of Rutgers tests three periods of reduced regulation,  
12 and in one of them, the passage of PURPA, utilities actually faced decreased  
13 risks. (Nwaeze, Emeka T., "Deregulation of the Electric Power Industry: The  
14 Earnings, Risk and Return Effects." 17 JRegulatory Economics 49, 61 (2000).)  
15 Interestingly, Professor Nwaeze also states that in the two cases where he found  
16 that there were risk increases, he also found, "[t]he negative return effects were  
17 more pronounced for small utilities compared to large ones, suggesting greater  
18 vulnerability of small utilities to the adverse consequences of inefficiency in a  
19 competitive environment." ComEd is by no means a small utility, so the  
20 increased risk ComEd is said to be facing may reasonably be called into  
21 question, especially as to the significance of whatever, if any, increased risk may  
22 be found.

23  
24 I won't go through the other academic study cited by Professor Peltzman that  
25 was provided in discovery, since my points here are that academic studies are of  
26 limited use to us here, especially given that there is not unanimous opinion as to  
27 the validity of the Peltzman effect. I will cite just one additional academic study  
28 that Professor Peltzman did not cite in his testimony. That study came to

1 opposite conclusions than Professor Peltzman. In 1997, Professors Wallace,  
2 Rangan, and Rosenstein studied the Peltzman effect. The conclusion of the  
3 paper was that:

4  
5 "The results indicate that regulation seems to influence beta (risk) as  
6 predicted by the buffering hypothesis, but only during the period from  
7 October 1976 to December 1981, when fuel prices were rising  
8 dramatically. The buffering hypothesis does not hold over the period from  
9 January 1982 to December 1987, when fuel prices declined or over the  
10 period January 1988 to December 1992 when fuel prices were relatively  
11 stable." (Davidson, Wallace N., Nande Rangan and Stuart Rosenstein,  
12 "Regulation and systematic Risk in the Electric Utility Industry: A Test of  
13 the Buffering Hypothesis," 32 The Financial Review Vol. 32, No. 1 163-  
14 184 (1997).)

15  
16 My point is not to do a complete literature review. It is sufficient for our purposes  
17 here to know that there is disagreement in the academy over the so-called  
18 Peltzman effect. It might hold, it might not. It might hold true only in certain  
19 narrowly defined periods, or within narrowly defined constraints. The point in  
20 this proceeding, however, should be whether these academic studies are having  
21 any effect at all on the return investors demand.

22  
23 Q. What do you mean by the statement "the point in this proceeding should be  
24 whether these academic studies are having any effect at all on the return  
25 investors demand"?

26  
27 A. Because ComEd's prices are set through regulation, the level of return included  
28 in those prices cannot be determined by the market. The Commission must act  
29 in the place of market forces to match the return within regulated rates to those  
30 in the prices of comparable firms. As ComEd's witness Daniel Thone stated,  
31 "The cost of common equity used in calculating a utility's revenue requirement



1 must be consistent with market expectations to ensure that regulation is meeting  
2 the company's financial needs." (ComEd Ex. 8.0 at 4) It is market expectations  
3 of earnings corresponding to particular levels of risk and to particular industries  
4 that the Commission is trying to mimic here, not academic studies. The use of  
5 academic studies to prove that the relevant risk is different from objective market  
6 evidence reminds me of the old joke about economists: An economist sees some  
7 process working well and thinks to himself, "well it certainly works in practice, but  
8 will it work in theory?"  
9

10 Q. Have you looked at what the market expectations of risk are for ComEd?  
11

12 A. Yes, I have. I performed a simple search on the internet, using Yahoo! Finance,  
13 and found a summary of equity analysts opinions for Exelon. Yahoo! Finance  
14 summarized the opinions of 15 equity analysts covering Exelon. Of these 15  
15 analysts, 12 are telling their clients to buy Exelon stock, and 3 are saying a more  
16 neutral "hold" position is warranted. No analysts are telling their clients to sell  
17 the stock. On the first page of that summary, you see that, on a grade of 1  
18 (best stock to buy) to 5 (sell this stock soon), Exelon ranks 1.8. This is better  
19 than the market as a whole (at 2.18) and even the electric utility industry (at  
20 2.27). All in all, it is clear that analysts have a very high opinion of Exelon stock  
21 – i.e., that its level of return on investors' money is quite favorable.  
22

23 If we look even more closely, at selected analyst reports from brokerage houses,  
24 we see this trend even more pronounced. For instance, Morgan Stanley Dean  
25 Witter analysts have obviously not read the academic studies Professor  
26 Peltzman cites, since in their opinion the risks faced by Exelon are (1) potential  
27 growth through acquisitions, and (2) nuclear operations. (Investment Report on  
28 Exelon, prepared by James von Riesemann and Kit Konolige, Morgan Stanley

1 Dean Witter, March 7, 2001.) Steven Fleishman at Merrill Lynch states that he  
2 "[v]iew[s] Exelon as one of the premier growth utilities with top tier positions in  
3 generation, nuclear, power marketing, and telecom/infrastructure services."  
4 (Investment Reports on Exelon, prepared by Steven I. Fleishman, Merrill Lynch,  
5 January 31, 2001; March 1, 2001; April 25, 2001; and July 25, 2001.)  
6

7 It is clear that investment analysts tend to see Exelon (ComEd's parent) as a  
8 very good stock to purchase. It has low risk and high potential. Nowhere do  
9 analysts state that Exelon could face increased risk because of its distribution  
10 subsidiaries. In fact, the risk factors cited by stock analysts are the old ones of  
11 management capabilities and performance of the nuclear fleet.  
12

13 Q. You stated earlier that Professor Peltzman cited, in addition, two specific  
14 interlocking reasons for stating that ComEd faced increased risks. Could you  
15 elaborate on these?  
16

17 A. Yes. Professor Peltzman correctly states that ComEd is the provider of last  
18 resort under Illinois restructuring. He sets up the situation where a customer of  
19 another retail energy supplier comes back to ComEd, and ComEd has to provide  
20 power to her. ComEd is at risk of having to buy power for that customer at high  
21 prices. "Because it [ComEd] will have no control over generation, it will now be  
22 exposed to fluctuations in demand for open access due to supplier behavior that  
23 is beyond its control, as well as the downstream risks stemming from these  
24 fluctuations." (ComEd Ex. 9.0 at 5)  
25

26 Professor Peltzman is correct that these price fluctuations might occur. He is  
27 even correct that ComEd may be exposed to higher risk because of them.  
28 *However, the decision to sell its generating fleet of over 20,000 MW was entirely*

1        *ComEd's decision.* In certain states, notably California, utilities were required to  
2        divest their generating assets. Illinois did not make such a requirement of its  
3        utilities. ComEd could still be sitting on its coal, gas, oil, and nuclear fleet of  
4        generation, insulating its customers from "supplier behavior" as well as  
5        "downstream risks." Instead, it pocketed over \$4 billion for its fossil plants, and  
6        spun its nuclear fleet off to an Exelon subsidiary that will sell this power at  
7        market rates. If ComEd faces increased risks because it has "no control over  
8        generation," it is entirely of ComEd's doing. Ratepayers should not be penalized  
9        for ComEd's voluntary management decisions – decisions that under Professor  
10       Peltzman's analysis seem imprudent as to ComEd's statutory service  
11       responsibility.

12  
13       Also, Professor Peltzman cites the lack of a fuel adjustment clause as the  
14       second specific factor increasing ComEd's risk profile. ComEd retains the  
15       obligation to serve, he observes, but owns no generation to serve any increase  
16       in demand. Therefore, it would have to purchase power on the market, and sell  
17       that power (at least until January 2005) at frozen rates.

18  
19       It is true that ComEd does not have a fuel adjustment clause, so cannot pass  
20       through automatically the increased cost of power. However, once again, the  
21       decision to get rid of the fuel adjustment clause was entirely ComEd's. I have  
22       been unable to find any news account where any outside party called on ComEd  
23       ask the Commission to eliminate its fuel adjustment clause. This perceived  
24       increase in risk is entirely of ComEd's doing.

25  
26       Also to be noted is the fact that under Illinois law, ComEd is allowed to petition  
27       the Commission for reinstatement of the fuel adjustment clause five years after it  
28       is eliminated (but no earlier than 1/1/2005). If ComEd has fixed fuel prices until

1 12/31/2004, and can reinstate the fuel adjustment clause in 2005, there is no  
2 risk to ComEd.

3  
4 In any case, with regard to both of these specific risk factors Professor Peltzman  
5 has brought up, they seem to be moot in face of ComEd's filed tariff Rider ISS.  
6 Professor Peltzman looks to the example of a non-ComEd customer coming  
7 back to ComEd for whatever reason. ComEd has to buy power in the open  
8 market for that customer. Professor Peltzman believes this to be a risk to  
9 ComEd, since ComEd may not be able to recoup the cost of that power. If  
10 Professor Peltzman had read Rider ISS, he would have seen that ComEd  
11 charges customers under this scenario the market price for the power – the price  
12 that ComEd itself had to pay for the power. There is no risk to ComEd in this  
13 instance.

14  
15 In summary, Professor Peltzman cites two specific factors that allegedly increase  
16 ComEd's risk profile that were caused by ComEd's own actions: selling its  
17 generation fleet and getting rid of its fuel adjustment clause. ComEd now wants  
18 to add to ratepayers' burdens because of the Company's voluntary actions. If  
19 Professor Peltzman is correct, and ComEd does face increased risk because of  
20 these two actions, ComEd shareholders should bear any increased costs caused  
21 by these actions. Ratepayers should not be further burdened by ComEd's  
22 voluntary (and, under Professor Peltzman's analysis, imprudent) management  
23 decisions.

24  
25 Q. You stated earlier that claims of increased risks to ComEd are at odds with  
26 statements made by ComEd in an earlier proceeding. Could you please  
27 elaborate?  
28

1 A. Yes. In ICC Docket No. 00-0369 and 00-0394, Consolidated, ComEd  
2 successfully sought Commission approval to transfer ownership of its nuclear  
3 generating assets to an Exelon subsidiary. Throughout that proceeding, ComEd  
4 witnesses stated over and over that the sale, and resulting lack of its own  
5 generation, would have no effect on the riskiness of the Company's equity and  
6 would not affect the rate of return.

7  
8 Q. Could you provide just a few citations to show this contention?

9  
10 A. Yes. Beginning with the Company's filed Notice of Transfer of Generating  
11 Assets and Wholesale Marketing Business, at page 3, ComEd states, "the  
12 Transfer will not negatively affect ComEd's rate of return on common equity  
13 ("ROE"), and therefore will have no adverse effect on retail rates. *Moreover, the*  
14 *Transfer protects the Company's ROE from many of the risks associated with*  
15 *nuclear plant operation and the advent of retail competition.*" (Notice at page 3,  
16 (emphasis provided).) *(See Attachment Three, hereto.)*

17  
18 In accompanying testimony, Robert McDonald, a Vice President with then  
19 named Unicom, an Exelon predecessor, stated

20  
21 "The merger [and spin off of nuclear fleet] will allow Unicom to separate  
22 ComEd's generation function from the transmission and distribution  
23 operations and to isolate some of the risks inherit [sic] in the generation  
24 business. It will focus greater management attention on improving the  
25 operation of the transmission and distribution systems. Finally, the  
26 reorganization will structure operations to ensure the continued financial  
27 viability of ComEd. As we have previously explained to the Commission,  
28 ComEd will emerge from the reorganization stronger, from both  
29 managerial and financial perspectives." (ICC Docket No. 00-0369 and  
30 00-0394, Consolidated, Appendix E to Notice, page 5.) *(See*  
31 *Attachment Three, hereto.)*

1 Further on, Mr. McDonald states,

2  
3 "[T]he Transfer will not adversely affect either the cost of debt or the cost  
4 of equity. While, as the Commission notes, the Transfer will reduce the  
5 level of "hard assets" on the Company's books, it is far more significant  
6 from a lender's credit-assessment perspective that the Transfer will  
7 greatly reduce ComEd's generation-related default risk. Further, the  
8 Transfer is not expected to significantly affect ComEd's required return on  
9 equity." (ICC Docket No. 00-0369 and 00-0394, Consolidated, Appendix  
10 E to Notice, page 17, (emphasis provided).) (See Attachment Three, hereto.)  
11

12 Finally, to sum up, Mr. McDonald states,

13  
14 "The rating agencies have indicated that the financial parameters  
15 considered appropriate for measuring the debt default risk of a vertically  
16 integrated electric utility company are not necessarily suitable for  
17 assessing the debt default risk of a wires company. In particular, the  
18 agencies' general assessment is that companies electing to focus on  
19 generation will need higher cash flow coverages and stronger  
20 capitalization ratios (i.e., more equity) to maintain the same debt rating as  
21 the generation market becomes more competitive. As a result, the  
22 general view is that transmission and distribution companies are likely to  
23 experience relatively higher credit ratings for similar levels of debt-  
24 protection." (ICC Docket No. 00-0369 and 00-0394, Consolidated,  
25 Appendix E to Notice, page 18.) (See Attachment Three, hereto.)  
26

27 As can be seen quite plainly, when it sought to spin off its nuclear fleet, ComEd  
28 assured the Commission in all its testimony and evidence that the risks to the  
29 distribution company would decrease. Since it has pocketed its \$4.8 billion for  
30 the fossil plants, and successfully spun off the nuclear fleet to an unregulated  
31 company, ComEd turns around and claims that its own actions have now  
32 increased the risks faced by the distribution business. I don't believe this to be  
33 the case, and financial analysts don't believe this to be the case. But, even if it  
34 were the case, since the increase in risk will have been caused by ComEd's own  
35 actions, ratepayers should not be forced to pay for this.  
36

**Modifications to ComEd's Capital Structure**

Q. What is the capital structure that ComEd is seeking to have approved and financed in this rate case?

A. In the testimony of ComEd witness John E. Ebright, he seeks recovery on a capital structure consisting of \$6,963,798,000 of long term debt and \$5,933,786,000 of equity. This results in a debt to equity ratio of 54%/46%.

Q. Do you have any modifications to suggest to this capital structure?

A. Yes, I have one modification to suggest to the Commission. The modification concerns the amount of Instrument Finance Charge ("IFC") debt ComEd carries on its books for purposes of this proceeding. IFCs were allowed by the legislation restructuring the electric utility industry. IFCs are financial instruments backed up by legislatively mandated rates and charges, and thus, are seen to be less risky, and lower priced, than most other financial instruments ComEd could issue.

ComEd has reduced the amount of IFC debt outstanding by \$313,748,642 for debt that will redeemed in 2001. This is a legitimate modification. However, ComEd also reduces its outstanding debt by a further \$340 million for IFC debt that will be redeemed in 2002. This is not a legitimate modification since it is out of test year. ComEd does not support this modification in any way, providing only the bald statement that it is making the modification, but providing no rationale. In any case, I can see no rationale for making such a modification outside of the test year.

Q. What is the result of this modification?

A. This modification increases the amount of debt in the capital structure by \$340 million.

Q. Are there any other modifications to be made to Mr. Ebright's proposed capital structure?

A. There might be one more modification I will propose to the amount of equity. I am working with Mr. Ed Bodmer, a government and consumer witness, to determine the correct level of equity to be included in the capital structure. Given the amount of financial data to be analyzed, and given the adjustment made to equity accounts because of the merger with PECO and the spin off of generation assets, this analysis is not yet completed. I reserve the right here to make modifications to the capital structure I use to determine the cost of capital.

Q. With these modifications, what is the capital structure that the Commission should use when setting a cost of capital for this rate case?

A. The capital structure the City is recommending is shown in detail on Attachment ~~Four~~ <sup>Three</sup> to my testimony. This shows a debt to equity ratio of 55%/44%. With this capital structure, and the cost of equity I spoke of earlier, the cost of capital that the Commission should apply in this rate case is ~~8.17%~~ <sup>9.10</sup>.

Q. Does this conclude your testimony?

A. Yes.



**Steven P. Walter**

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**PROFESSIONAL EXPERIENCE**

**Deputy Commissioner, Energy Policy. City of Chicago, Department of Environment.  
December 1996 to present.**

Identification and analysis of energy issues facing the City and its residents. Preparation of policy recommendations for Mayor's Office and various City agencies. Development of various energy policies and programs for City and residents. Major achievements:

- Negotiated 400 MW power purchase with Enron Energy Services, saving City and Allied agencies 10 per cent of energy costs.
- Negotiated nation's largest renewable power purchase (80 MW) with Commonwealth Edison and Environmental Resource Trust.
- Negotiating team leading to Settlement Agreement with Commonwealth Edison Company (\$1.25 billion Franchise dispute).
- Negotiated 10-year, 50 megawatt purchase of power from Calumet Energy Team.
- Directed renewable energy programs, including announcements of deployment of over 3 megawatts of solar photovoltaic energy within three years.
- Directed energy efficiency program that has grown client base to over 60 Chicago industrial firms.
- Directed energy efficiency program for City of Chicago that includes recently announced 15 million square feet of energy retrofits.

**Budget Officer. Illinois Department of Commerce and Community Affairs. July 1995 to November 1996.**

**Research Economist. Illinois Department of Energy and Natural Resources. January 1991 to June 1995.**

**Rate Analyst. Public Utilities Commission of Ohio. April 1989 to May 1990.**

**Instructor. Department of Communications. The University of Scranton. September 1993 to May 1995.**

## **EDUCATION**

**Graduate work in Law.** The John Marshall School of Law. September 1994 to June 1994.

**Post Graduate work (towards Ph. D.) In Diplomatic and Economic History.** The Ohio State University. August 1985 to June 1987.

**Master of Business Administration in Finance.** The University of Scranton. May 1985.

**Master of Arts in History.** The University of Scranton. May 1985.

**Bachelor of Arts in Economics.** The University of Scranton. May 1983.

**Bachelor of Arts in International Relations.** The University of Scranton. May 1983.

## **SPEECHES AND PUBLICATIONS (Partial Listing)**

"Illinois' Electric Deregulation Legislation." Presented to the Urban Consortium Energy Task Force Summer Meeting. Corpus Christi, Texas. September 11, 1998.

"Preparing for Electric Deregulation." Presented to the National Association of Counties Annual Conference. Portland, Oregon. July 19, 1998.

"Chicago's Strategy in a Deregulated Environment." Presented to the Urban Consortium Energy Task Force Summer Meeting. Albuquerque, New Mexico. September 9, 1997.

"Quantifying Electric Utility Competition." Presented to the Retail/Wholesale Wheeling Conference. Orlando, Florida. December 12, 1994.

"Nuclear Power Performance Standards." Proceedings of the 1992 PowerGen Conference. Orlando, Florida. November 16, 1992.

"The Role of Least Cost Planning in Rate Cases." Presented to the Illinois Economics Association Annual Conference. Chicago, Illinois. October 17, 1992.

"Least Cost Planning and Rate Design." Presented to the National Regulatory Research Institute's Biannual Conference. Columbus, Ohio. September 10, 1992.

Attachment One to City Ex. 1.0

"Nuclear Performance Standards: Preliminary Results." Proceedings of the 1992 InterRAMQ Conference. Philadelphia, Pennsylvania. August 27, 1992.

Schedule One  
DCF Results (Low Growth Estimates)

	<u>Mkt. Cap.</u>	<u>DCF (low Growth)</u>	<u>wgtd</u>
ConEd	7,800	9.50	4.07
Energy East	2,200	10.95	1.32
Idacorp	1,800	8.97	0.89
KCPL	1,700	12.30	1.15
Nstar	2,200	12.47	1.51
PEPCo	2,500	9.38	1.29
	18,200	10.60	<u>10.23</u>

Schedule Two  
DCF Results (High Growth Estimates)

	<u>Mkt. Cap.</u>	<u>DCF (high Growth)</u>	<u>wgtd</u>
ConEd	7,800	13.87	5.94
Energy East	2,200	14.33	1.73
Idacorp	1,800	15.43	1.53
KCPL	1,700	12.54	1.17
Nstar	2,200	17.98	2.17
PEPCo	2,500	9.95	1.37
	18,200		<u>13.91</u>

Schedule Three  
CAPM Analysis Results

	<u>Mkt. Cap.</u>	<u>CAPM</u>	<u>wgtd</u>
ConEd	7,800	12.10	5.19
Energy East	2,200	11.48	1.39
Idacorp	1,800	12.05	1.19
KCPL	1,700	12.47	1.16
Nstar	2,200	11.03	1.33
PEPCo	2,500	10.20	1.40
	18,200		<u>11.66</u>

Schedule Four  
Cost of Equity Summary

DCF (Low Growth)	10.23
DCF (High Growth)	13.91
CAPM	11.66
Average of Three	11.93

**JONES, DAY, REAVIS & POGUE**

77 WEST WACKER

CHICAGO, ILLINOIS 60601-1692

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keh/1095047 v2  
233145-038021

May 19, 2000

Ms. Donna M. Caton  
Chief Clerk  
Illinois Commerce Commission  
527 East Capitol Avenue  
Springfield, IL 62794-9280

Re: Commonwealth Edison Company

Dear Ms. Caton:

On behalf of Commonwealth Edison Company, enclosed for filing please find the original and four copies each of the following materials:

1. a verified "Notice of Transfer of Assets and Wholesale Marketing Business" ("Asset Transfer Notice");
2. confidential Appendix H to the Asset Transfer Notice;
3. confidential Appendix K to the Asset Transfer Notice;
4. confidential Appendix L to the Asset Transfer Notice; and
5. a verified "Request for Confidential Treatment" of Appendices H and M.

As a courtesy, copies of Items 1 and 5 are being sent to all individuals listed on the attached Distribution List; Items 2, 3 and 4 are being sent only to the listed Commission personnel.

Would you please return the stamped extra copies of these materials in the enclosed self-addressed stamped envelope. Thank you for your assistance.

Very truly yours,

  
Paul T. Ruxin

Enclosures

Writer Direct Dial:  
(312) 269-1546

CHIEF CLERK'S OFFICE

MAY 22 8 33 AM '00  
ILLINOIS  
COMMERCE COMMISSION



**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

Commonwealth Edison Company )  
)  
Notice of transfer of generating assets and )  
wholesale marketing business and entry into )  
related agreements pursuant to )  
Section 16-111(g) of the Illinois Public )  
Utilities Act. )

ILLINOIS  
COMMERCE COMMISSION  
MAY 22 8 33 AM '00  
CHIEF CLERK'S OFFICE

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**NOTICE OF TRANSFER OF GENERATING ASSETS  
AND WHOLESALE MARKETING BUSINESS**

---

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May 19, 2000

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company	)
	)
Notice of transfer of generating assets and	)
wholesale marketing business and entry	)
into related agreements pursuant to	)
Section 16-111(g) of the Illinois Public	)
Utilities Act.	)

NOTICE OF TRANSFER OF ASSETS  
AND WHOLESALE MARKETING BUSINESS

To the Illinois Commerce Commission:

Pursuant to Section 16-111(g) of the Illinois Public Utilities Act ("Act"), 220 ILCS 5/16-111(g), Commonwealth Edison Company ("ComEd" or the "Company") hereby notifies the Commission of the Company's intent to engage in all of the transactions and activities set forth in the agreements attached hereto as Appendices A-D. In general, pursuant to those agreements ComEd intends to transfer to an affiliate ("Exelon Genco") all of its nuclear electric generating assets ("Nuclear Stations"), together with certain related assets and obligations, and its wholesale marketing business, including any and all real and personal property used to conduct that business, in exchange for ComEd common stock. Additionally, ComEd will assign to Exelon Genco its rights and obligations under various power supply agreements. (The various steps involved in the transfer of assets, rights, obligations and the wholesale marketing business shall be referred to collectively as the "Transfer.")

Previously, on March 16, 2000, the Company filed a notice ("March 16 Notice") of its intent to transfer the nuclear assets and wholesale marketing business to Exelon Genco. The Commission set the March 16 Notice for hearing in Docket 00-0244. During the course of that proceeding, the Company determined that it would be appropriate to transfer the Company's

investment in Concomber, Ltd. ("Concomber") to Exelon Genco. Concomber is a wholly-owned subsidiary of ComEd that writes insurance policies for certain work performed by third-party vendors at the generating stations. On May 18, 2000, the Company voluntarily moved to dismiss Docket 00-0244.

Other than the transfer of the common stock of Concomber, the effect of the Transfer described herein on ComEd will be identical to that of the transfer under consideration in Docket 00-0244. From the date of the Transfer through 2004, ComEd will obtain all of its power supply from Exelon Genco. In 2005 and 2006, ComEd will obtain all of its power supply from Exelon Genco, up to the available capacity of the Nuclear Stations. ComEd will obtain any additional supply required from market sources in 2005 and 2006, and, subsequent to 2006, would obtain all of its supply from market sources, which could include Exelon Genco.

In connection with the Transfer, the Company intends to enter into various agreements with Exelon Genco, including a contribution agreement (the "Contribution Agreement") (generally in the form of Appendix A), an interconnection agreement ("Interconnection Agreement") (generally in the form of Appendix B) pertaining to each Nuclear Station, a facilities and easement agreement at the Zion Station ("Facilities Agreement") (generally in the form of Appendix C) and a power purchase agreement (the "PPA") (generally in the form of Appendix D).

Exelon Genco will be formed upon, and the Transfer will take place upon or shortly after, the closing of the merger of ComEd's parent, Unicom Corporation ("Unicom"), with PECO Energy Company ("PECO"). As ComEd has previously notified the Commission under Section 16-111(g) (the "Merger Notice"), Unicom has agreed to merge with a new holding company affiliate of PECO to form Exelon, Inc. ("Exelon"). Prior to or at the time that ComEd transfers its assets, PECO also will transfer its electric generating resources and wholesale

marketing operations to Exelon Genco. As a result of ComEd's and PECO's transfers, all of Exelon's generation and wholesale marketing operations will be under central control.

Beyond the benefits associated with centralizing generation and wholesale marketing operations, the Transfer offers two significant benefits for ComEd and its retail customers: (i) it will further separate ComEd's wires (transmission and distribution) function from the generation and wholesale marketing functions, and (ii) it will offer ComEd protection from certain operational and financial risks associated with its Nuclear Stations. By relocating the generating and wholesale marketing businesses, and shifting associated risks, to Exelon Genco, the Transfer is a further significant step in the restructuring of ComEd's operations to both facilitate and adapt to the development of competitive retail and wholesale markets.

The Transfer will bring these benefits to ComEd with no adverse effect on system reliability. The same management that recently has resurrected the nuclear plants' operating performance will continue to manage the plants. Exelon Genco will have access to the same sources of supply as ComEd, and will bring to the table the expertise of PECO's highly respected "PowerTeam" – an industry leading wholesale energy group.

Further, as shown in Appendix L hereto, the Transfer will not negatively affect ComEd's rate of return on common equity ("ROE"), and therefore will have no adverse effect on retail rates. Moreover, the Transfer protects the Company's ROE from many of the risks associated with nuclear plant operation and the advent of retail competition.

In connection with the Transfer, ComEd will transfer all assets in its qualified and non-qualified nuclear decommissioning trusts to Exelon Genco, which will then be responsible for administering the decommissioning trusts. Under the Contribution Agreement, ComEd will remain liable for the funding of the unfunded decommissioning liability, and will continue to collect decommissioning charges from customers. On May 17, 2000, the Company filed a

petition to initiate a separate proceeding to address issues relating to post-Transfer decommissioning charge recovery.

The Company anticipates that the Commission will set this Notice for hearing. To allow the Commission to take full advantage of the 90 day period under Section 16-111(g), the Company includes with its Notice, as Appendices E and F, respectively, the direct testimony of two individuals: Mr. Robert McDonald, Unicom's Vice President Strategic Planning and Mr. Robert Berdelle, Unicom's Vice President and Comptroller.

## **I. Description of the Transfer**

### **A. The Parties**

The principal parties to the transfer are ComEd and Exelon Genco, which will be affiliates under common ownership by Exelon.<sup>1</sup>

**ComEd.** ComEd is engaged in the production, transmission, distribution and sale of electricity to wholesale and retail customers. ComEd provides service to more than 3.4 million customers (nearly 300,000 are commercial and industrial customers, and the rest residential) across northern Illinois, or 70 percent of the state's population, covering approximately one-fifth of the state of Illinois (including the city of Chicago).

ComEd's current net generating capability is approximately 9,550 megawatts (MW), supplied by five Nuclear Stations. (ComEd has a sixth Nuclear Station, Zion, which has been retired.) In December 1999, ComEd completed the sale of 9,772 MW of fossil plants to Edison Mission Energy ("EME"). The Commission previously approved that sale in Docket No. 99-0282. In connection with the EME sale, ComEd entered into certain PPAs with EME. The

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<sup>1</sup> As will be discussed, the Transfer will be achieved through the use of a new ComEd subsidiary, which will be created for the sole purpose of effectuating the Transfer.

EME PPAs entitle ComEd to purchase capacity and energy from EME on specified terms through December 31, 2004.

Prior to the EME sale, ComEd had sold fossil plants to affiliates of Dominion Resources, Inc. ("Dominion") and Southern Company ("Southern"). ComEd had also entered into PPAs with Dominion and Southern. Additionally, going forward, ComEd has PPAs with several independent power producers (IPPs). (The PPAs with EME, Dominion, Southern and the IPPs shall be referred to as the "Fossil Agreements").

Exelon Genco. Exelon Genco will be a wholly-owned subsidiary of Exelon that owns and operates to the generation assets and business of ComEd and PECO. As ComEd explained in the November 23 Notice, PECO has more than 100 years of generation plant management experience. PECO participates actively in the deregulated marketplace, trading wholesale power 24 hours a day in 47 states and Canada.

PECO is recognized as a leading nuclear operator across the industry and has managed other plants under service contracts. PECO's Energy Generation division is responsible for safe, reliable and efficient operation of PECO's power generating facilities, which includes a diverse fleet of nuclear, hydro, and fossil generating units. PECO's substantial nuclear fleet has set new nuclear performance standards in safety, capacity factors, refueling efficiency and low operating and maintenance costs, while producing more than 33 billion kilowatt-hours of nuclear electricity in 1998. PECO also has coal, oil, natural gas, landfill gas fired generators, run of the river and pumped storage hydro facilities.

At the heart of PECO's wholesale power business is PowerTeam -- a five-year old unit that is a leading supplier of reliable electricity to other utilities, cooperatives and marketers all across the continental United States and Canada. PowerTeam's energy sales have grown in each of the past five years, and for the first time, wholesale deliveries exceeded PECO's retail

sales in 1998. PowerTeam also has agreements to market full output of plants under construction or planned in Texas, Georgia and Oklahoma.

PECO also has an interest in AmerGen, a partnership with British Energy, which was formed in 1997 to acquire additional nuclear generating assets. Both PECO and British Energy have strong operating cultures for safety and reliability. AmerGen has acquired (with this Commission's approval) the Clinton Power Station in southern Illinois.

#### **B. Assets and Obligations To Be Transferred**

The specific assets ComEd intends to transfer to Exelon Genco are identified and described in the Contribution Agreement (Appendix A). ComEd intends to transfer and/or assign to Exelon Genco (as applicable): (i) all six of its Nuclear Stations, including the land on which they sit, and the equipment used in their operation; (ii) the Company's rights under the Fossil Agreements; (iii) various fuel supply agreements and other leases and contracts related to the generation business; (iv) all personal and real property, assets and obligations related to and used in the conduct of ComEd's wholesale marketing business (e.g., computers, trading floor equipment, trading floor lease, etc.); and (v) the capital stock of Concomber held by ComEd.

ComEd will also transfer to Exelon Genco all assets, including investments, held in ComEd's decommissioning trusts. ComEd will retain the obligation to collect unfunded decommissioning cost charges from customers, and to forward such funds to Exelon Genco.

ComEd will not transfer to Exelon Genco any transmission or distribution assets, except for the synchronous condensers at the closed Zion facility, and the parcels of land on which those condensers and certain other facilities sit. ComEd will retain the right to operate and control the condensers.<sup>2</sup> ComEd will continue to own and operate its transmission and

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<sup>2</sup> The Company notes that it is transferring certain step-up transformers, generator leads and related facilities. These assets, which are not reflected in transmission rates, and  
(continued...)

distribution assets subject to any current or future obligations to the Midwest Independent System Operator.

### C. The PPA

A central feature of the Transfer is the PPA (Appendix D), a power supply agreement under which Exelon Genco will supply all of ComEd's requirements from the date of the Transfer through December 31, 2004 (the "Initial Term"), and will supply all of ComEd's requirements up to the available capacity of the Nuclear Stations in 2005 and 2006. The PPA will ensure ComEd a reliable source of supply, while at the same time protecting ComEd from both the risk of suboptimal performance of the nuclear units and many of the financial effects of load loss associated with the transition to a competitive retail market.

Under the PPA, Exelon Genco will be ComEd's sole external source of supply during the Initial Term of the PPA.<sup>3</sup> Exelon Genco will supply all capacity and energy required by ComEd to serve its load, satisfy applicable reliability requirements, provide ancillary services and satisfy any and all other obligations that ComEd may have. To satisfy ComEd's requirements, Exelon Genco will rely on the same sources of supply that would otherwise be available to ComEd: the nuclear units; the Fossil Agreements; and other market sources. In this regard, then, Exelon Genco will rely on the same sources of supply that ComEd would rely on were the Transfer never to occur. However, the prices will be fixed for the Initial Term to protect

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<sup>2</sup> (...continued)  
which are typically viewed as generating assets, are nonetheless considered to be jurisdictional (i.e., transmission) assets by FERC for purposes of Section 203 of the Federal Power Act. Accordingly, as will be discussed, ComEd has obtained FERC approval of the Transfer.

<sup>3</sup> ComEd may still, from time to time, employ small generators (known as "distributed generation") throughout its system for reliability purposes. ComEd will also continue to make purchases from other entities to the extent required by law, such as under the Public Utility Regulatory Policy Act of 1978.



ComEd from any increases in cost, whether due to operating costs, additional investment or market prices.

The PPA sets forth a schedule of energy prices, on- and off-peak, by month for the full term of the agreement. (ComEd will not pay a separate capacity charge.) The price of energy provided to ComEd under the PPA is intended to reflect the cost to ComEd of the same supply mix were the Transfer never to occur.

The monthly prices were developed on the basis of ComEd's cost of service associated with the Nuclear Stations, prices under the Fossil Agreements, and projections of energy market prices. The Transfer is not intended to lock in ComEd's power supply costs at an historical level that is higher than costs going forward. Accordingly, the Nuclear Station costs reflect both a projected write-down of investment in the Nuclear Stations at closing of the Unicom-PECO merger and the benefit of the improvement of the Nuclear Stations' operating performance in recent periods. In other words, the PPA pricing recognizes a reduction in plant investment and an increase in the units' operation at higher capacity factors than those at which they have historically operated.

The pricing in the PPA protects ComEd from risk that nuclear plant performance deteriorates during the term of the agreement. Naturally, ComEd does not expect that the same team that has rescued the nuclear units from the prior performance patterns and established an admirable operating record would allow the units to return to their prior performance patterns. Nonetheless, under the PPA, ComEd will no longer bear that risk; it will become Exelon Genco's risk. ComEd will pay prices based on high operating performance levels regardless of actual performance. This not only protects ComEd from nuclear plant operating risk, but also provides Exelon Genco with a significant incentive to keep the plants running well. Any operating performance slippage will accrue to the sole detriment of Exelon Genco.

The PPA pricing also allows ComEd's power supply costs to rise and fall with its load. ComEd will no longer have any fixed costs that it has to cover regardless of load levels. Rather, ComEd will only be required to pay for that energy which it needs. If ComEd's load falls, its costs fall, as well, in proportion to the reduction in load. This feature protects ComEd's ROE from a significant risk associated with the level of load switching to other suppliers.

#### **D. Post-Transfer Management**

The Transfer reflects ComEd's effort to further restructure its operations to reflect the new environment. As ComEd explained in the Merger Notice, generation has become a more complex operation than it was in the past, with a different set of risks, and demands increasing levels of managerial attention. At the same time, ComEd is striving to improve its distribution and transmission system performance, which also requires an increasing amount of management's time. Further, ComEd needs to assure that the company will continue to be healthy financially as it faces increasing levels of competition.

The Transfer will separate Exelon's generation function from ComEd's transmission and distribution operations, and will not interfere in any respect with the operation of the transmission and distribution systems. ComEd will have a Distribution President, Mr. Carl Croskey, who will be responsible for delivery services. Because ComEd will no longer be in the wholesale power marketing business, the position of Distribution President will be able to focus principally on distribution operations.

Exelon Genco will continue the present focus on maintaining excellent performance at its nuclear plants. Mr. Oliver D. Kingsley, Jr. will be the Chief Nuclear Officer of the combined ComEd-PECO system.

#### **E. Mechanics of the Transfer**

The specific steps that will be followed to effect the Transfer are set forth on

Appendix G.

## II. Satisfaction of Regulatory Requirements

### A. Provision of Information Required under Section 16-111(g)

Section 16-111(g) provides that an electric utility transferring ownership of electric generating assets must comply with the provisions of Section 16-128(c) and (d) of the Act, as applicable, and give the Commission certain information and at least 30 days notice of the transfer. ComEd provides the following information and commitment required by Section 16-111(g) of the Act:

- (i) *a complete statement of the entries that the electric utility will make on its books and records of account to implement the proposed reorganization or transaction together with a certification from an independent certified public accountant that such entries are in accord with generally accepted principles and, if the Commission has previously approved guidelines for cost allocations between the utility and its affiliates, a certification from the chief accounting officer of the utility that such entries are in accord with those cost allocation guidelines*

The statement of entries and required certifications are attached as Appendices H,

I and J.<sup>4</sup>

- (ii) *a description of how the electric utility will use proceeds of any sale, assignment, lease or transfer to retire debt or otherwise reduce or recover the costs of services provided by such electric utility*

The Transfer will not produce any proceeds for ComEd. The Transfer will be accomplished by making a capital contribution of the assets to Exelon Genco. In return, ComEd will receive ComEd common stock from Exelon, with no cash proceeds to ComEd. This exchange will permit ComEd to maintain a reasonable capital structure. The merger of Unicom and PECO Energy will result in significant goodwill being recorded on ComEd's books, thereby

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<sup>4</sup> Portions of Appendix H are confidential, and that Appendix is being submitted in both redacted and confidential form.

significantly increasing the equity component of ComEd's capital structure, absent other measures. The Transfer will result in a capital structure reasonably comparable to that which ComEd will have prior to the merger and Transfer.

- (iii) *a list of all federal approvals or approvals required from departments and agencies of the State, other than the Commission, that the electric utility has or will obtain before implementing the reorganization or transaction*

The Transfer requires approval from the following federal regulatory agencies: a) the FERC, under Section 203 of the Federal Power Act for the asset transfer, and under Section 205 of the FPA for the PPA, Facilities Agreements, and Interconnection Agreements; ComEd has received its Section 203 approval from the FERC; ComEd intends to make the Section 205 filing subsequent to the conclusion of any proceeding under Section 16-111(g); b) the Nuclear Regulatory Commission, for a transfer of ComEd's nuclear operating licenses; c) the SEC, under the Public Utility Holding Company Act of 1935; and d) the Federal Communications Commission, for a change in control of telecommunications licenses; e) the Illinois Environmental Protection Agency ("IEPA"), for a change in control of various permits; and f) the Illinois Department of Nuclear Safety with respect to radioactive material licensing. Additionally, the Company will seek appropriate tax rulings from the Internal Revenue Service, and the form of the Transfer is subject to receipt of such rulings.

- (iv) *an irrevocable commitment by the electric utility that it will not, as a result of the transaction, impose any stranded cost charges that it might otherwise be allowed to charge retail customers under federal law or increase the transition charges that it is otherwise entitled to collect under this Article XVI*

ComEd hereby irrevocably commits that it will not, as a result of the Transfer, either impose any stranded cost charges that it might otherwise be allowed to charge retail customers under federal law or increase the transition charges that it is otherwise entitled to collect under Article XVI of the Act.

(v) *cancellation of fuel adjustment clause.*

ComEd's fuel adjustment clause was previously canceled;

(vi)(A) *a description of how ComEd will meet its service obligations under the Act in a safe and reliable manner.*

The Transfer does not pose any risk to the safety and reliability of service provided by ComEd. As discussed above, ComEd will obtain its source of supply from Exelon Genco under the PPA. Exelon Genco, which will combine the ComEd and Power Team wholesale marketing talent and operations, will serve ComEd from the very same resources that ComEd has today: the ComEd nuclear units, the various Fossil Plant Agreements and market sources. Accordingly, the Transfer will not limit or reduce the resources available to serve ComEd.

Moreover, in no respect will the management of ComEd's power supply be inferior to the management of ComEd's resource portfolio today. To the contrary, the addition of the Power Team expertise to the management of ComEd's supply needs should enhance ComEd's reliability. As Mr. McDonald explains in his direct testimony, Power Team brings to the table a highly successful wholesale marketing operation, with a proven track record.

Further, the PPA provides for the same type of load and resource planning that ComEd engages in today. Under the PPA, each year ComEd and Exelon Genco will engage in a planning process for the following year. This process will enable Exelon Genco to procure whatever resources may be necessary to satisfy ComEd's needs the following year. A load and resource plan for the 2000-2004 period is attached as Appendix K.<sup>5</sup>

After the PPA expires, ComEd will obtain its then-required supply from market sources, which could include Exelon Genco. ComEd expects that the power supply market at

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<sup>5</sup> Appendix K contains confidential information and is being submitted under seal.

that time will include many more supply options than it does today. A substantial amount of new capacity has been proposed in Illinois alone. While not all of the proposed capacity may come to market, ComEd anticipates that a significant level will and that there will be no difficulty procuring replacement supply upon expiration of the PPA. ComEd also notes that, with this Commission's approval, two other Illinois electric utilities, Illinois Power Company and Central Illinois Public Service Company, transferred their electric generating assets to a generating company affiliate and entered into supply contracts with those affiliates that expire on December 31, 2004.

ComEd will continue to own and operate its transmission and distribution systems. The Transfer will not affect, in any respect or to any degree, ComEd's obligations to the Midwest Independent System Operator.

The Transfer will not interfere with or disrupt the Company's continuing efforts to improve the performance of its distribution system. To the contrary, the Transfer will separate the distribution and generation functions, and will facilitate singular management focus on distribution system operations. As explained in the November 23 Notice regarding the Unicom-PECO merger, the distribution and generation functions will report to separate managers.

The Transfer also will not adversely affect the Company's ability to invest in distribution system enhancements. As the Company's accompanying ROE analyses demonstrate, the Transfer will have no adverse effect on ROE. Accordingly, the Company's plans to improve its distribution system will be unaffected.

Likewise, the Transfer will not negatively affect the operating performance of the nuclear units. Indeed, the Transfer is not intended to effect any change in the way those plants are run or managed. The same team that has so dramatically turned around the performance of those plants in a short period of time will continue to operate and manage those plants.

Moreover, PECO itself brings an admirable operating record to the table. Between them, Unicom and PECO intend to establish in Exelon Genco the single best nuclear operating team in the business.

*(vi)(B) ComEd's projected earned rate of return on common equity, calculated in accordance with Section 16-111(d) of the Act, for the period 2000 through 2004, both with and without the Transfer.*

Section 16-111(g) requires that the Company submit analyses of its ROE, both with and without the Transfer, for each year subsequent to the Transfer through 2004. The purpose of this requirement is to allow the Commission to assess whether the Transfer will result in the Company's ROE being so low that there is a strong likelihood that the Company would qualify for an exception to the base rate freeze. Section 16-111(d) authorizes electric utilities to request an increase in electric base rates where the utility's two year average ROE is less than the average return on 30-year treasury bonds for the same two-year period. The projections of ComEd's annual returns on common equity ("ROE"), both with and without the Transfer, are set forth in Appendix L,<sup>6</sup> and discussed in Mr. Berdelle's direct testimony. (App. F)

The ROE analyses provided by the Company amply demonstrate that the Transfer will not produce a strong likelihood that the Transfer will result in ComEd being entitled to request an increase in base rates during the mandatory transition period. To the contrary, the ROE analyses show that the Transfer will not decrease the Company's return on common equity during any study year subsequent to the transfer.

Moreover, the ROE analyses are extremely conservative. The Company tested the effect of the Transfer under widely varying load retention assumptions: i) retention of all load; and ii) retention of no load. At neither extreme does the Transfer have any significant downward impact on the Company's projected ROE. Also, as noted above, the Transfer

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<sup>6</sup> Appendix L contains confidential information and is being submitted under seal.

minimizes risks embedded in the "no Transfer" base case – the risk of a deterioration in nuclear operating performance and the risk of an increase in power supply costs. The Transfer fixes ComEd's power supply costs for the four year study period.

**B. Compliance with Section 16-128(c)**

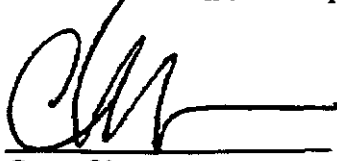
Section 16-128(c) of the Act imposes certain obligations on the Company in connection with the Transfer. The obligations relate to the terms and conditions of employment for those current employees who are offered jobs with Exelon Genco, and to a transition plan for those employees who are not offered jobs.

Section 6.1(b) of the Contribution Agreement (App. A) sets forth the contract provisions necessary to comply with Section 16-128(c).

ComEd also commits to implement a transition plan, as required by Section 16-128(c) to the extent that any non-supervisory personnel are not offered employment after the transfer. However, a transition plan for employees who are represented by the Union will be the result of negotiations between ComEd and the Union. Accordingly, it would not be appropriate for ComEd to unilaterally put forth a detailed transition plan at this time.



Respectfully submitted,  
Commonwealth Edison Company

By:   
One of its attorneys

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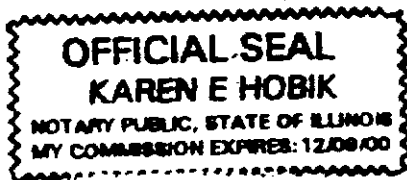
**Affidavit**

Robert E. Berdelle, Vice President of Commonwealth Edison Company, being first duly sworn, states that he has read the foregoing Notice, that he is familiar with the facts stated therein and that the facts stated therein are true and correct to the best of his knowledge.

Robert E. Berdelle  
Robert E. Berdelle

Subscribed to and sworn before me  
this 18th day of May, 2000.

Karen E. Hobik  
Notary Public



## **List of Appendices**

Contribution Agreement .....	A
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**APPENDIX E**

**DIRECT TESTIMONY OF ROBERT K. MCDONALD**

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company )  
 )  
Notice of transfer of generating, wholesale )  
marketing and associated assets and entry into )  
related agreements pursuant to )  
Section 16-111(g) of the Illinois Public )  
Utilities Act.

DIRECT TESTIMONY OF ROBERT K. MCDONALD

Q. Please state your name and business address.

A. Robert K. McDonald, Unicom Corporation ("Unicom"), 10 South Dearborn, 37th Floor,  
Chicago, Illinois 60603.

Q. What is your position with Unicom?

A. Vice President.

Q. What are your duties in that position?

A. My major duties are to facilitate and coordinate the development of Unicom's overall  
corporate strategy as well as to investigate growth opportunities for the corporation,  
including mergers, acquisitions and other strategic combinations. I am also responsible  
for assisting in the development of new market institutions as needed. Finally, I am the  
Unicom project manager for the integration of PECO and Unicom.

Q. Please provide your educational and employment background.

A. I hold a Bachelor of Science and a Masters of Science Degree in Electrical Engineering  
from the University of Illinois in Champaign and a Masters of Business Administration  
from the University of Chicago. I began work for Unicom's electric utility subsidiary,

24 Commonwealth Edison Company ("ComEd"), in 1978. During my employment with  
25 ComEd, I held various positions in System Planning, Generation Planning, Division  
26 Engineering, Strategic Analysis, Treasury, Transmission Planning, and finally Strategic  
27 Planning. I became Strategic Planning Vice President in May, 1998. I was elected as a  
28 corporate officer in December, 1999.

29 Q. What is the purpose of your testimony?

30 A. The purpose of my testimony is to discuss ComEd's decision to transfer its nuclear  
31 generating assets to an affiliated generating company ("Exelon Genco"). I will introduce  
32 ComEd, generally, as it currently is structured, and I will discuss the pending merger  
33 involving Unicom and PECO Energy Company ("PECO"). I will explain why ComEd  
34 has decided to transfer its generating assets to Exelon Genco (the "Transfer"), which  
35 specific assets are being transferred, and what the Transfer means for post-merger  
36 operations. In this regard, I will discuss various related contracts and contractual  
37 provisions. I will also discuss why the Transfer will not render ComEd unable to provide  
38 its tariffed services in a safe and reliable manner. I also will present ComEd's plans for  
39 complying with Section 16-128 of the Illinois Public Utilities Act ("Act") relating to  
40 employees at the affected plants. Lastly, I respond to two questions posed by the  
41 Commission in connection with the Company's original, March 16, 2000 Notice  
42 regarding the transfer of the plants

43 Overview

44 Q. Please describe Unicom.

45 A. Unicom, which is based in Chicago, Illinois and has been incorporated since 1994, is a  
46 public company dedicated to meeting the energy needs of residential, commercial,

47 industrial and wholesale customers. Unicom and its subsidiaries have approximately  
48 16,000 employees, \$7 billion in annual revenues, and 182,000 shareholders. Unicom is  
49 the parent holding company to ComEd, its principal subsidiary. Unicom is also parent to  
50 a number of unregulated subsidiaries which are engaged in a variety of energy services  
51 and activities.

52 Q. Please describe ComEd.

53 A. ComEd is engaged in the production, transmission, distribution and sale of electricity to  
54 wholesale and retail customers. ComEd has been providing electricity to customers in  
55 Northern Illinois since 1887, when it was founded as Chicago Edison Company. ComEd  
56 provides service to more than 3.4 million customers (nearly 300,000 are commercial and  
57 industrial customers, and the rest residential) across northern Illinois, or 70 percent of the  
58 state's population, covering approximately one-fifth of the state of Illinois (including the  
59 city of Chicago). ComEd owns and operates the nation's largest nuclear fleet, with over  
60 9,550 MW of generating capacity. In addition to selling energy from these plants to  
61 ComEd's customers, ComEd actively participates in selling energy into the wholesale  
62 market.

63 Q. Please describe PECO.

64 A. PECO is an electric and gas utility serving 1.5 million electric customers and more than  
65 400,000 natural gas customers in the Philadelphia area. PECO has a substantial nuclear  
66 fleet, and also owns and operates coal, natural gas, oil, landfill gas and hydro generating  
67 plants. PECO participates actively in the deregulated marketplace, trading wholesale  
68 power 24 hours a day in 47 states and Canada, purchasing and operating nuclear

69 generation and establishing unregulated ventures in retail energy sales,  
70 telecommunications and utility infrastructure management.

71 Q. Please describe the pending Unicom-PECO merger.

72 A. Unicom and PECO have entered into a definitive agreement providing for a merger of  
73 equals. Unicom will merge with a new holding company affiliate of PECO to form  
74 "Exelon," a new holding company. Exelon will be the parent of, among others, ComEd  
75 and PECO. On November 22, 1999, ComEd notified the Commission of the merger  
76 pursuant to Section 16-111(g) of the Act. Applications related to the merger are pending  
77 before the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission  
78 and the Pennsylvania Public Service Commission. Exelon will also register with the  
79 Securities and Exchange Commission as a holding company subject to regulation under  
80 the Public Utility Holding Company Act of 1935.

81 Q. How does the decision to merge relate to the decision to separate the nuclear assets and  
82 wholesale business from ComEd?

83 A. From Unicom's perspective, the merger is part of our continuing effort to restructure  
84 ComEd's operations and our unregulated ventures to adapt to a new competitive  
85 environment. We believe that intrinsically different markets will develop for generation,  
86 energy services, and transmission and distribution. To succeed in these markets, Unicom  
87 must develop separate organizations with distinct focuses, assets and skills and find  
88 opportunities for growth. The Generation organization will focus on maximizing the  
89 generation and sales of low-cost energy into the wholesale market. The Transmission  
90 and Distribution organization will focus on providing all required energy over a reliable



91 delivery system to its retail customers. The Unregulated Ventures organization will focus  
92 on providing a portfolio of utility-related products and services.

93 The combination with PECO allows Unicom to address all of these concerns. The  
94 merger will allow Unicom to separate ComEd's generation function from the  
95 transmission and distribution operations and to isolate some of the risks inherent in the  
96 generation business. It will focus greater management attention on improving the  
97 operation of the transmission and distribution systems. Finally, the reorganization will  
98 structure operations to ensure the continued financial viability of ComEd. As we have  
99 previously explained to the Commission, ComEd will emerge from the reorganization  
100 stronger, from both managerial and financial perspectives.

101 Q. How will the generation and wholesale marketing functions be separated from the  
102 transmission and distribution operations?

103 A. The separation of the generation and wholesale marketing functions from the  
104 transmission and distribution functions is a central component of the overall  
105 restructuring. All generating resources will be controlled, and all wholesale marketing  
106 will be conducted, by Exelon Genco. ComEd and PECO will operate their respective  
107 wires businesses and will not play a role in wholesale marketing. (Of course, ComEd  
108 will in the future access the wholesale market as a purchaser.) ComEd will retain certain  
109 existing wholesale contracts with municipal customers.

110 Q. Please describe Exelon Genco.

111 A. Exelon Genco will be a wholly-owned subsidiary of Exelon that will contain the  
112 generation resources and wholesale marketing businesses of ComEd and PECO.

Q. Please describe the ComEd generation resources and wholesale marketing businesses that Exelon Genco will assume.

A. ComEd's current net generating capability is approximately 9,550 megawatts (MW), supplied by five operating nuclear generating stations. (ComEd has a sixth nuclear station, Zion, which has been retired.) In December 1999, ComEd completed the sale of 9,772 MW of fossil plants to Edison Mission Energy ("EME"). The Commission previously approved that sale in Docket No. 99-0282. In connection with the EME sale, ComEd entered into certain PPAs with EME. The EME PPAs entitle ComEd to purchase capacity and energy from EME on specified terms through December 31, 2004. Prior to the EME sale, ComEd sold fossil plants to affiliates of Dominion Resources, Inc. ("Dominion") and Southern Company ("Southern"). ComEd had also entered into PPAs with Dominion and Southern. Additionally, going forward, ComEd has PPAs with several independent power producers ("IPPs") located in and around its service territory. I will refer to the PPAs with EME, Dominion, Southern and the IPPs, which are identified on Schedule 2.1(e) of the Contribution Agreement, as the "Fossil Agreements."

ComEd's wholesale marketing business was founded in 1994 to market ComEd's generation capacity and acquire energy when needed for retail operations. Since that time, wholesale marketing has been instrumental in acquiring energy to meet successively higher record demands in ComEd's service territory. It has lowered ComEd's overall energy supply cost by optimizing the use of wholesale purchases relative to ComEd's generation capacity. It has also effectively marketed ComEd's generation, selling over 17 million MWH last year.

135 Q. Please discuss PECO's generating resources and wholesale marketing business.

136 A. PECO has 9,561 MW of generating capability, which, as I mentioned, consists of nuclear,  
137 coal, natural gas, oil, landfill gas and hydro generating plants. PECO also has an interest  
138 in AmerGen, a partnership with British Energy, which was formed in 1997 to acquire  
139 additional nuclear generating assets. Both PECO and British Energy have strong  
140 operating cultures for safety and reliability. AmerGen has acquired (with this  
141 Commission's approval) the Clinton Power Station in southern Illinois.

142 At the heart of PECO's wholesale power business is Power Team -- a five-year  
143 old unit that is a leading, reliable supplier of electricity to other utilities, cooperatives and  
144 marketers all across the continental United States and Canada. Power Team's energy  
145 sales have grown in each of the past five years, and for the first time, wholesale deliveries  
146 exceeded PECO's retail sales in 1998. Power Team also has agreements to market full  
147 output of plants under construction or planned in Texas, Georgia and Oklahoma.

148 Q. What assets will ComEd transfer to Exelon Genco?

149 A. The specific assets ComEd intends to transfer to Exelon Genco are identified and  
150 described in the Contribution Agreement, which is attached to the Notice as Appendix A.  
151 In general, ComEd intends to transfer and/or assign (as applicable) to Exelon Genco: (i)  
152 all six of its nuclear plants, including the land on which they sit and the equipment used  
153 in their operation; (ii) the Company's rights under the Fossil Agreements; (iii) various  
154 fuel supply agreements and other leases and contracts related to the generation business;  
155 (iv) all real and personal property and assets related to and used in the conduct of  
156 ComEd's wholesale marketing business (e.g., computers, trading floor equipment); and  
157 (v) the capital stock of Concomber.

158 ComEd will also transfer to Exelon Genco all assets, including investments, held  
159 in ComEd's decommissioning trusts. ComEd will retain the obligation to collect  
160 unfunded decommissioning cost charges from ratepayers, and to forward such funds to  
161 Exelon Genco.

162 Q. Who will have the obligation to decommission the plants?

163 A. Exelon Genco will have the obligation to decommission the plants.

164 Q. Will ComEd transfer any transmission or distribution assets to Exelon Genco?

165 A. ComEd will not transfer to Exelon Genco any transmission or distribution assets, with the  
166 exception of a synchronous condenser at the Zion station and certain land on which  
167 various facilities sit. ComEd will have the right to control and operate that synchronous  
168 condenser. ComEd will continue to own and operate its other transmission and  
169 distribution assets subject to any current or future obligations to any independent system  
170 operator or regional transmission organization.

171 Q. Will the Transfer adversely affect the reliability of the ComEd nuclear plants?

172 A. No. The Transfer will not negatively affect the operating performance of the nuclear  
173 units. The nuclear units will be under the same direct management after the Transfer as  
174 they were immediately before the Transfer. Moreover, PECO itself brings an admirable  
175 operating record to the table. PECO is recognized as a leading nuclear operator across  
176 the industry and has managed two other plants under service contracts. PECO's  
177 substantial nuclear fleet has set new nuclear performance standards in safety, capacity  
178 factors, refueling efficiency and low operating and maintenance costs, while producing  
179 more than 33 billion kilowatt-hours of nuclear electricity in 1998. Between them,

180 Unicom and PECO intend to establish in Exelon Genco the single best nuclear operating  
181 team in the generation business.

182 Q. How will ComEd obtain its power supply after the Transfer?

183 A. A central feature of the Transfer is the PPA, a power supply agreement under which  
184 Exelon Genco will supply all of ComEd's requirements from the date of the Transfer  
185 through December 31, 2004 (the "Initial Term"), and, in 2005 and 2006, all of ComEd's  
186 requirements up to the available capacity of the transferred nuclear units. The PPA will  
187 ensure ComEd a reliable source of supply, while at the same time, as I will explain,  
188 protecting ComEd from the risk of suboptimal performance of the nuclear units, energy  
189 price volatility and many of the financial effects of load loss associated with the transition  
190 to a competitive retail market.

191 Under the PPA, Exelon Genco will be ComEd's sole external source of supply  
192 during the Initial Term of the PPA (i.e., through 2004). (ComEd may still, from time to  
193 time, employ small generators (known as "distributed generation") throughout its system  
194 for reliability purposes, and will still make purchases required under PURPA.) During  
195 the Initial Term, Exelon Genco will supply all capacity and energy required by ComEd to  
196 serve its load, satisfy applicable reliability requirements, provide ancillary services and  
197 satisfy any and all other obligations that ComEd may have. To satisfy ComEd's  
198 requirements, Exelon Genco will rely on the same sources of supply that would otherwise  
199 be available to ComEd absent the Transfer: the nuclear units, the Fossil Agreements and  
200 other market sources.

201 Subsequent to the Initial Term, in 2005 and 2006, Exelon Genco will serve ComEd's  
202 requirements up to the available capacity of the transferred nuclear units.

203 Q. How will capacity and energy be priced?

204 A. ComEd will not pay a separate capacity charge; ComEd will pay only an energy charge.  
205 The PPA sets forth a schedule of energy prices, on- and off-peak, by month for the Initial  
206 Term. Prices for the years 2005 and 2006 will be set at then prevailing market rates, and  
207 will be filed with the FERC for the FERC's approval.

208 Q. How were the monthly prices developed?

209 A. The monthly prices were developed using data that reflect ComEd's cost of service  
210 associated with the nuclear units, prices under the Fossil Agreements, and projections of  
211 market prices. The nuclear plant costs reflect both a projected, substantial write-down of  
212 investment in the nuclear plants at closing of the Unicom-PECO merger and the benefit  
213 of the improvement of the nuclear units' operating performance in recent periods.  
214 Specifically, the prices assume that the the nuclear plants will operate at an aggregate  
215 capacity factor of 85%, which compares with the historical capacity factor of 69% for the  
216 period 1989 through 1999. In other words, Exelon Genco is giving ComEd the benefit of  
217 an increase in the units' overall capacity factor to a level much higher than that at which  
218 they have historically operated, as well as reflecting the benefit of the reduction in book  
219 investment.

220 Q. Why were prices developed in this manner?

221 A. There are three principal reasons. First, the price of energy provided to ComEd during  
222 the Initial Term is intended to approximate the cost to ComEd of these same sources were  
223 the Transfer never to occur. We are not attempting to effect any increase in cost to  
224 ComEd by moving the nuclear assets and other resources to Exelon Genco. Moreover,

225 the prices will be fixed for the term of the agreement to protect ComEd from any  
226 increases in cost, whether due to operating costs, additional investment or market prices.

227 Second, the Initial Term pricing also allows ComEd's power supply costs to rise  
228 and fall with its load. ComEd will no longer have any fixed power supply costs that it  
229 has to cover regardless of load levels. Rather, ComEd will only be required to pay for  
230 that energy which it needs. If ComEd's load falls, its costs also fall, in proportion to the  
231 reduction in load. This feature affords ComEd's ROE significant protection from risks  
232 associated with the level of switching to other suppliers.

233 Finally, the Initial Term pricing protects ComEd from any risk that nuclear plant  
234 performance deteriorates during the term of the agreement. Naturally, ComEd does not  
235 expect that the same team that has rescued the nuclear units from the prior performance  
236 patterns and established an admirable operating record would allow the units to return to  
237 their prior performance patterns. Nonetheless, under the PPA, ComEd will no longer  
238 bear that risk; it will become Exelon Genco's risk. ComEd will pay prices based on high  
239 operating performance levels regardless of actual performance. This not only protects  
240 ComEd from the risk, but also provides Exelon Genco with a significant incentive to  
241 keep the plants running well. Any operating performance slippage will accrue to the sole  
242 detriment of Exelon Genco.

243 Q. Does the Transfer alter or change any risk relating to availability of supply during the  
244 2001-2004 period?

245 A. No, the Transfer does not alter any risk relating to the safety and reliability of service  
246 provided by ComEd during that period. As I have discussed previously, ComEd will  
247 obtain its source of supply from Exelon Genco under the PPA. Exelon Genco, which will

248 combine the ComEd and Power Team wholesale marketing talent and operations, will  
249 serve ComEd from the same resources that ComEd has today: the ComEd nuclear units,  
250 the various Fossil Plant Agreements and market sources. Accordingly, the Transfer will  
251 not limit or reduce the resources available to serve ComEd.

252 Moreover, in no respect will the management of ComEd's power supply be  
253 inferior to the management of ComEd's resource portfolio today. The addition of the  
254 Power Team expertise to the management of ComEd's supply needs should enhance  
255 ComEd's reliability. Power Team brings to the table a highly successful wholesale  
256 marketing operation, with a proven track record.

257 Further, the PPA provides for the same type of load and resource planning that  
258 ComEd engages in today. Under the PPA, each year ComEd and Exelon Genco will  
259 engage in a planning process for the following year, which will result in an annual load  
260 plan. This process will enable Exelon Genco to procure whatever additional resources  
261 that may be necessary to satisfy ComEd's needs the following year. I wish to emphasize  
262 that the PPA expressly provides that the annual load plan is designed to provide a  
263 reasonable basis on which to estimate ComEd's service requirements, and will not relieve  
264 Exelon Genco from its obligations to provide ComEd the actual full requirements needed  
265 to meet ComEd's service obligations to retail and retained load.

266 After the PPA expires, ComEd would obtain its then-required supply from market  
267 sources, which could include Exelon Genco.

268 Q. Do you expect that market sources will be adequate at that time?

269 A. Yes. In fact, we expect that the power supply market at that time will include many more  
270 supply options than it does today. A substantial amount of new capacity has been



271 proposed in Illinois alone. While not all of the proposed facilities may be built, ComEd  
272 anticipates that a significant number will and that there will be no difficulty procuring  
273 replacement supply upon expiration of the PPA. I also note that two other Illinois electric  
274 utilities, Illinois Power Company and Central Illinois Public Service Company,  
275 transferred their electric generating assets to a generating company affiliate and entered  
276 into supply contracts with those affiliates that expire on December 31, 2004.

277 Q. Has ComEd prepared a load and resource plan?

278 A. Yes. The Company has prepared a load and resource plan for the 2000-04 study period  
279 that assumes 100% load retention. The plan accompanies the Notice as Appendix K  
280 (confidential). The plan shows that in some years, at 100% load retention, currently  
281 contracted Genco resources would produce a reserve margin below a 15% reserve  
282 margin, computed in accordance with the MAIN methodology. To the extent that Genco  
283 requires additional resources to serve the ComEd load, Genco would arrange to purchase  
284 additional resources to ensure reliable service. The attached plan also indicates the level  
285 of planned resources that other entities plan to install in the ComEd control area, which,  
286 in the aggregate, greatly exceeds the amount by which currently contracted Genco  
287 resources would fall below a 15% reserve margin at 100% load retention. In addition to  
288 the new control area resources referenced in the plan, there will be other resources  
289 outside of the ComEd control area that could be imported in the event, and to the extent,  
290 necessary. ComEd also has the ability to utilize additional load management measures.

291 I note also that the transfer of ComEd's physical generating assets and contractual  
292 generation resources to Genco does not change the plan in any respect from what would  
293 be the case were the transfer not to occur. The plan would be exactly the same if ComEd

294 were to maintain ownership of the nuclear plants and other capacity rights. Accordingly,  
295 the transfer does not adversely affect ComEd's ability to provide reliable service in any  
296 respect.

297 Q. Will this reorganization have an impact on the efficiency of Northern Illinois' wholesale  
298 market?

299 A. By dividing ComEd into a Generation and Distribution organization, we hope to  
300 stimulate the development of a more efficient energy market in Northern Illinois. As the  
301 Exelon Genco and ComEd grow as two separate organizations, they may independently  
302 transact in an open wholesale market and help to foster institutions that increase market  
303 liquidity and efficiency.

304 Q. Will the Transfer interfere with transmission or distribution operations?

305 A. No. ComEd will continue to own and operate its transmission and distribution systems.  
306 The Transfer will not affect, in any respect or to any degree, ComEd's participation in the  
307 Midwest Independent System Operator.

308 The Transfer will not interfere with or disrupt the Company's continuing efforts to  
309 improve the performance of its distribution system. To the contrary, the Transfer will  
310 separate the distribution and generation functions, and will facilitate heightened  
311 management focus on distribution system operations.

312 The Transfer also will not adversely affect the Company's ability to invest in  
313 distribution system enhancements. As the Company's accompanying ROE analyses  
314 demonstrate, the Transfer will have no adverse effect on ROE. Accordingly, the  
315 Company's plans to improve its distribution system will be unaffected by the Transfer.

316 Q. What two sets of questions did the Commission pose to the parties in Docket No. 00-  
317 0244?

318 A. The two sets of questions were:

319 1) Will Commonwealth Edison have the ability to provide a reliable source of  
320 electricity to its retail customers who opt to take service under the power purchase  
321 option ("PPO") required by Section 16-110(b) if the transactions described in the  
322 Section 16-111(g)(vi) notice are completed? Will there be a reliable source of  
323 electricity if there is no material change in the Neutral Fact Finder ("NFF")-  
324 determined market value for customers who shift to the PPO between now and  
325 Summer 2000, as well as for customers who shift to the PPO in future summers  
326 (again, assuming no material change in the NFF-determined market value of  
327 power and energy)?

328 2) The Notice contemplates the transfer by Commonwealth Edison of a number of  
329 nuclear power plants ("hard assets") that it currently owns. These assets  
330 constitute a significant component of ComEd's balance sheet in terms of  
331 creditworthiness and as perceived by the financial industry. What will be the  
332 nature of the assets that ComEd receives in return for the transfer of these hard  
333 assets? Will any perceived difference in the creditworthiness of ComEd before  
334 and after the contemplated transfer give rise to increased costs of debt, or any  
335 other impact on the financial perception of ComEd that could give rise to a  
336 claimed need for higher rates for electricity or delivery services? What financial  
337 guarantees will be given by third parties as further security for the assets received  
338 by ComEd in return for the nuclear power plants?

339 Q. Will the Transfer impair ComEd's ability to provide reliable electric service to customers  
340 exercising their PPO option this summer and in subsequent years?

341 A. No, it will not. The question raised by the Commission refers to the possibility of  
342 customers switching to the PPO shortly before or during summer months. To the extent  
343 that such switching may occur, ComEd's ability to serve the switching load will not be  
344 lessened to any degree by the transfer of ComEd's remaining generating assets and  
345 resources to Exelon Genco. The ability to serve PPO load is a planning and supply issue.  
346 The planning process and ComEd's ability to serve PPO load -- either this year or in  
347 subsequent years -- will be utterly unaffected by the transfer of generating assets to  
348 Exelon Genco. Currently, ComEd plans for its load on an annual basis. This year, prior  
349 to the Transfer, ComEd plans to serve that load using a mix of resources, which include  
350 its nuclear generating plants, capacity under contract and other market sources. After the  
351 Transfer, ComEd will still plan for its load on an annual basis. ComEd will plan to serve  
352 this load through the mandatory transition period through Exelon Genco, which will use  
353 the same mix of resources (the nuclear plants, contract capacity and other market sources)  
354 to serve ComEd that ComEd itself would have used.

355 Q. Will Exelon Genco be required to supply ComEd with the capacity needed to serve PPO  
356 load during the mandatory transition period?

357 A. Yes, under the PPA, Exelon Genco will be required to supply ComEd's full load  
358 requirements during the mandatory transition period. While Exelon Genco and ComEd  
359 will cooperate to plan for ComEd's needs, Exelon Genco's obligation will not be limited  
360 to ComEd's planned or anticipated load. Exelon Genco must provide capacity and  
361 energy adequate to cover ComEd's actual load requirements.

362 Q. Will the use of the NFF to determine the price under the PPO affect ComEd's ability to  
363 serve PPO load?

364 A. No, the ability to serve PPO load is not dependent on the particular mechanism used to  
365 set the PPO price. Again, this is a planning and supply issue. It is not a pricing issue.

366 Q. What cost of service issues have been posed by the Commission?

367 A. The Commission has asked, essentially, whether the Transfer will adversely affect the  
368 Company's cost of capital to an extent that increases the Company's cost of service.

369 Q. Will the transfer of nuclear assets negatively affect the Company's cost of capital?

370 A. No, the Transfer will not adversely affect either the cost of debt or the cost of equity.

371 While, as the Commission notes, the Transfer will reduce the level of "hard assets" on the  
372 Company's books, it is far more significant from a lender's credit-assessment perspective  
373 that the Transfer will greatly reduce ComEd's generation-related default risk. Further,  
374 the Transfer is not expected to significantly affect ComEd's required return on equity.

375 Q. Please discuss the effect of the Transfer on the Company's debt ratings.

376 A. Debt ratings are issued by independent rating agencies. The primary risk that debt rating  
377 agencies address is the risk of default. In the past, the rating agencies used a single set of  
378 criteria for all investor-owned electric utilities ("electric IOUs"), because virtually all  
379 electric IOUs were vertically integrated, and there was no significant difference in the  
380 default risk profiles of the generation, transmission and distribution functions. All three  
381 were subject to rate of return regulation, and electric IOUs were guaranteed an  
382 opportunity to earn a reasonable rate of return. Today, however, competition has been  
383 introduced in the generation business line, at both the wholesale and, in states such as  
384 Illinois, the retail levels. The risks associated with competition are likely to make the

385 default risk of a debt investment in a generation business greater than the default risk  
386 associated with a debt investment in a wires business (transmission and distribution).  
387 Accordingly, as electric utilities are separating their generation and wires businesses into  
388 different companies, the rating agencies use criteria specific to the type of business(es) in  
389 which the company engages.

390 Q. Have the ratings agencies themselves indicated that they consider the default risk of a  
391 debt investment in a wires business to be lower than the default risk of a debt investment  
392 in a generating business?

393 A. Yes, they have. The rating agencies have indicated that the financial parameters  
394 considered appropriate for measuring the debt default risk of a vertically integrated  
395 electric utility company are not necessarily suitable for assessing the debt default risk of a  
396 wires company. In particular, the agencies' general assessment is that companies electing  
397 to focus on generation will need higher cash flow coverages and stronger capitalization  
398 ratios (i.e., more equity) to maintain the same debt rating as the generation market  
399 becomes more competitive. As a result, the general view is that transmission and  
400 distribution companies are likely to experience relatively higher credit ratings for similar  
401 levels of debt-protection.

402 Q. What is the significance of the rating agencies' view for ComEd's post-Transfer credit  
403 ratings?

404 A. Of course, we cannot predict exactly what action each of the rating agencies will take  
405 with respect to ComEd after the Transfer. However, the most significant factor in  
406 assessing ComEd's debt creditworthiness will be the degree to which it has protected  
407 itself from the debt default risk associated with the marketing of generation. As I

408 explained above, and as the Company explained in the Notice, a principal purpose of the  
409 Transfer is do just that – isolate ComEd to the greatest extent possible from financial  
410 risks associated with the ownership, operation and marketing of generation.

411 Q. Do you agree that the nuclear assets constitute “a significant component of ComEd’s  
412 balance sheet in terms of its creditworthiness and as perceived by the financial industry”?

413 A. I agree that historically an electric IOU’s balance sheet has played a significant role in  
414 credit risk assessment. The rating agencies have moved away from reliance on balance  
415 sheet measures, however, for a variety of reasons. The principal reason involves lack of  
416 uniformity in asset valuation practices and depreciation policies, particularly as energy  
417 companies become global in scope. The agencies focus instead on levels of debt, cash  
418 and cash flow.

419 Q. Will the Transfer adversely affect the Company’s cost of equity for either bundled  
420 electric service or delivery service?

421 A. No, there is no reason to believe that the Company’s required return on equity will be  
422 any higher after the Transfer than before. Moreover, I would note that, during the  
423 mandatory transition period, the Company’s ability to seek an increase in rates for  
424 bundled electric service (generation and delivery services) is governed by Section 16-  
425 111(d) of the Illinois Public Utilities Act. Mr. Berdelle has submitted analyses  
426 demonstrating that ComEd would not qualify for an increase in bundled electric rates  
427 under that test.

428 Q. The Commission expressed an interest in what assets ComEd is receiving in exchange for  
429 the nuclear assets. What consideration is ComEd receiving in return for the assets being  
430 transferred?

431 A. The principal consideration ComEd receives is ComEd stock that will be held by Exelon  
432 at the time of the Transfer. As described in the Notice, the Transfer will occur by ComEd  
433 first transferring the assets to a subsidiary of ComEd. ComEd will then exchange its  
434 stock in the subsidiary with Exelon for ComEd common stock held by Exelon. ComEd  
435 will then retire that stock.

436 Q. Does the nature of the assets being received by ComEd as consideration require that any  
437 additional financial guarantees be given as security?

438 A. No, it does not.

439 Q. Does this conclude your testimony?

440 A. Yes.



Four

Attachment Six to City Ex. 1.0

<u>Class of Capital</u>	<u>Amount (000's)</u>	<u>Percent</u>	<u>End of Year</u>	<u>Weighted</u>
Long Term Debt (reported by Edison)	\$ 6,963,798			
Plus IFC - 2002	\$ 340,000			
Adjusted Long Term Debt	\$ 7,303,798	55.18%	6.80%	3.75%
Preferred Stock	\$ -			
Common Equity	\$ 5,933,786	44.82%	11.93 <del>9.86%</del>	5.35 <del>4.42%</del>
Total	\$ 13,237,584	100.00%		<del>8.47%</del> 9.10%